DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY [signature] DATE Jan 4
RDS ☐ or XDS ☐ EXT. DATE
IS AUTH. REASON(S)
ENDORSE EXISTING MARKINGS ☐
DECLASSIFIED ☑ RELEASABLE ☑
RELEASE DENIED ☐
PA or FOI EXEMPTIONS

CONFIDENTIAL

PALESTINE REFUGEE PROBLEM

Ability of Arab Countries to Finance Refugee Resettlement Program

Loan Prospects

Both the International Bank and the Export-Import Bank are aware of the Arab Refugee Problem as a factor lending urgency to economic development of the Arab states. Both institutions will probably make development loans in the Middle East area over the next several years, but under present loan policies, the amount of such lending will be limited. The chief limitations on lending have been (1) the poor general financial conditions of the Arab states, (2) the shortage of private venture capital to initiate projects, (3) the lack of planning ability and organizational structure necessary for the presentation of projects on the basis of which loans can be made and structure which can assure the successful financial control and management of projects for which financial assistance is requested.

The poor general financial condition of the Arab states continues to be a deterrent to lending. With the end of Palestine hostilities, however, the drain of military expenditure will be materially lessened, and there is increased hope for a renewed flow of revenues ordinarily accruing from oil operations in the area.

If specific revenues, such as oil royalties, can be assigned to the servicing of the debt, both the International Bank and the Export-Import Bank may make loans for worthy projects despite an unfavorable financial condition of the economy, provided that such revenues are large enough to meet the debt service and are in the kinds of currency needed (usually dollars, although sterling in some cases). Another possibility, where a specific plant, or industry is involved, is the execution of an agreement in which revenues sufficient to service the loan are assigned to the Bank to avert diversions to other uses. In such cases, there would probably be required evidence of contracts for sales in proper currencies for debt service, sufficient to yield the necessary net revenue.

Shortage of private venture capital is the chief obstacle to Export-Import Bank lending in the area, although not to the International Bank, which would be concerned largely with public-utility-type development projects such as water control and transportation, in which private capital would not be expected to participate. Egypt is an exception to the other Arab states in that fairly large amounts of private capital are known to be available for investment. Lebanon, Iraq and Syria have substantially smaller rates of private capital formation, while Saudi Arabia and Transjordan-Arab Palestine have almost none.

The third factor, lack of planning ability, can be counteracted in large part through US and UN technical assistance under the "Point Four" program. Preliminary programming has been aimed at accomplishing this result. Political factors may make it difficult, however, for sound planning to proceed quickly, especially because of the few officials of Near

Eastern countries who are specifically charged with developmental duties and with whom US and UN technicians can work. Iraq may be the first Arab government to remedy this situation if it follows through with its intention of setting up a Combined Development Board in which US and UK technicians will participate. The International Bank has urged that Iraq establish such a board to plan projects, including relative priorities, to select foreign technicians to manage projects, and to maintain financial control of the development program. The Board would presumably have assigned to it sufficient IPC royalty revenues to prevent diversion of funds from priority development projects to other purposes.

The following analysis is aimed at showing the present status of Middle East loan applications before both institutions, pointing out a few possible projects that might be presented for financing.

International Bank

The International Bank has not yet granted credits to any of the Arab states. The Bank recently sent a mission to examine projects in the various countries of the Middle East. The mission returned prepared, after certain actions by the Iraq government, to recommend favorable consideration for loans on flood-control and irrigation projects in Iraq. Foreign exchange costs over 3 to 5 years are estimated at $20 million equivalent - of which about $12 million represents sterling, and the remainder dollars. The Bank feels that Iraq can handle local costs which amount to about ID 6,850,000 ($28 million equivalent). The mission was also impressed with the possibilities of the Kena Valley irrigation project in Egypt, although all except $2 to $3 million in dollar cost of this project is to be provided by Egyptian private capital.

Other projects which might be presented for Bank consideration include irrigation and agricultural development (including railways and road development) in the Jezira region of Syria, costing perhaps $60 million. There has also been proposed the Ghab project for irrigation and drainage of 150,000 acres in Syria at a cost of about $35 million. In Transjordan, the Jordan Valley development may possibly be accomplished in part at a cost of about $20 million over the next several years.

Eximbank

The Export-Import Bank has had very few loan applications from Arab states, except for Egypt. Its Saudi Arabian credit for $25 million lapsed in 1948 with only $10 million having been spent. In recent months, the Bank has talked to various persons about the following projects in Arab nations: Egypt - rayon factory and electric generating plant; Iraq - Euphrates River irrigation project and oil refinery; Lebanon - civil airport, hotel, and electric power plants; Saudi Arabia - cement plant; Yemen - harbor development; Syria - porcelain factory and diesel power plant.

Most of these projects will never result in loan applications, since they are only in the "talking stage". In any case, few of those which have been presented for consideration, will contribute to an alleviation of the refugee problem.

There are some few self-liquidating projects, however, that could be presented to the Eximbank in which it might be interested. For example, there is no reason why the potash works at the northern end of the Dead Sea in Arab Palestine should not be rehabilitated with Eximbank [illegible] since apparently potash is in short supply and the plant has proved its ability to operate efficiently. In addition, there are possibilities in Transjordan and Arab Palestine of developing fruit canning, planting date palms, developing the port of Aqaba and developing a fisheries industry in the Gulf of Aqaba.

May 3, 1949